

Use the question-specific markscheme together with the markbands. Award up to the maximum marks as indicated.

SECTION A

Microeconomics

1. (a) Using a price ceiling diagram, analyse the impact a maximum price might have on the market for food.

[10 marks]

Answers **may** include:

- definitions of a price ceiling or maximum price
- an analysis of the possible impacts of a price ceiling. Shortages, inefficient resource allocation, welfare impacts, underground parallel markets and non-price rationing. A consideration of the impacts on various stakeholders *PRODUCERS + CONSUMERS*
- diagram of a market supply and demand diagram showing a maximum price as specified in the question
- examples of markets where such price controls have been used or might be used in hypothetical situations. *- APPLY AN EXAMPLE.*

Assessment Criteria

Part (a) 10 marks

Level	Marks
0 The work does not reach a standard described by the descriptors below.	0
1 There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	1-3
2 There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	4-6
3 There is understanding of the specific demands of the question. Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There are few errors.	7-8
4 There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There are no significant errors.	9-10

- (b) Discuss the policies a government might use to make food more affordable to low income groups.

[15 marks]

N.B. It should be noted that definitions, theory, and examples that have already been given in part (a), and then referred to in part (b) should be rewarded.

Answers **may** include:

- definitions of identified policies and subsidies
- explanation of the use of subsidies, state provision of basic foodstuff and price controls. Diagrams to illustrate intervention, such as the use of subsidies and price ceilings
- examples of the application of the policies
- synthesis or evaluation (discuss).

Discussion **may** include: consideration of the advantages and disadvantages of the selected policies, impacts on stakeholders, short term and long term consequences.

Opinions or conclusions should be presented clearly and supported by appropriate examples.

Policies:

- MAX PRICE
- SUBSIDY
- GOVT PROVISION (BUFFER STOCK)
- SPENDING ON R&D
- LOWER IMPORT CONTROLS ON FOOD
- FOOD STAMPS
- + Policies to raise income levels for low income groups

2. (a) Explain **two** possible government responses to the abuse of monopoly power. [10]

Answers may include:

- definition of monopoly power
- diagrams may be used to show monopoly power but are not essential to answer the question
- theory to explain the application of any two of regulation, nationalization, legislation and trade liberalization
- examples of instances to which this might be, or has been, applied.

- (b) Evaluate the view that monopolies, despite their inefficiencies, may often be considered desirable.

[15]

Answers may include:

- definition of monopoly
- diagrams to explain monopoly inefficiency
- theory to explain what inefficiencies might occur. Explanation of the reasons why monopoly may be considered desirable, including the ability to finance research and development from economic profits, the need to innovate and the possibility of economies of scale, natural monopoly
- examples of where monopoly might or might not have been beneficial
- synthesis or evaluation.

Evaluation **may** include: an evaluation of the relative merits/demerits of monopoly.

Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

Opinions or conclusions should be presented clearly and supported by appropriate examples.

HL (3).

Section B

Macroeconomics

3. (a) Using the concept of the Keynesian multiplier, explain the possible impact of a rise in government spending on economic growth.

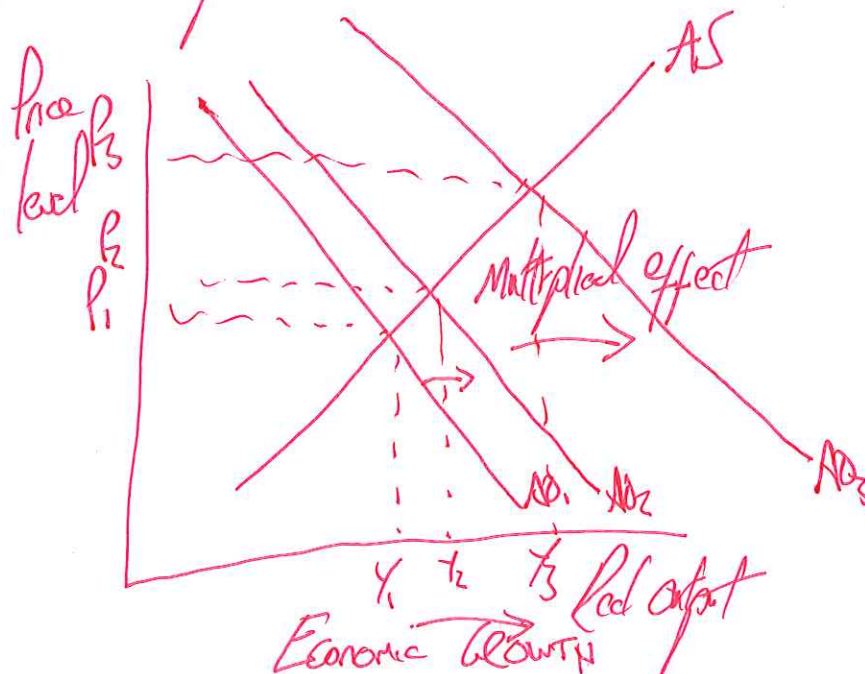
[10]

Answers **may** include:

- definitions of the Keynesian multiplier and economic growth (formula may be offered)
- diagram to show AD/AS to illustrate the impact of the multiplier
- theory to explain the Keynesian multiplier with reference to leakages and injections. Explanation of the linkage between the multiplier and economic growth
- examples to illustrate the multiplier.

Apply examples - either real world or numerical - eg. discuss the impact of \$500 million injection if multiplier is 7. Also use Great Depression + New Deal in 1930's USA or Chinese stimulus package after 2008 global recession.

Appropriate diagram:



- (b) To what extent might unemployment represent an economic and social problem?

[15]

Answers **may** include:

- definition of unemployment
- diagrams to illustrate the economic consequences of unemployment
- theory to explain the extent of economic and social problems of unemployment possibly as measured by the duration, type and magnitude of unemployment
- examples of the problems of unemployment
- synthesis or evaluation (to what extent).

Consideration of the merits, or otherwise, of the question **may** include: the costs and benefits of unemployment.

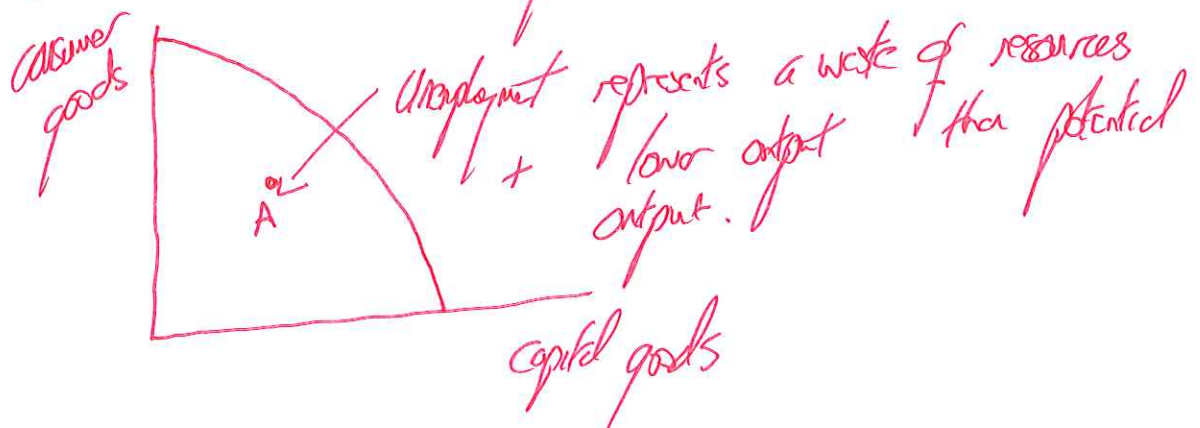
Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

Opinions or conclusions should be presented clearly and supported by appropriate examples.

TO WHAT EXTENT IS UNEMPLOYMENT A PROBLEM
TO WHAT EXTENT IS IT A SOCIAL PROBLEM
MORE THAN AN ECONOMIC PROBLEM

TO WHAT EXTENT IS - SEASONAL
- STRUCTURAL
- FRICTIONAL
- DEMAND DEFICIENT A PROBLEM.

Evaluation requires MORE than just describing the social and economic problems although these need to be included.
 Only one relevant diagram:



4. (a) Explain how a producer price index could be useful in predicting future inflation.

[10 marks]

Answers **may** include:

- definitions of producer price index and inflation
- explanation of how an increase in a producer price index could indicate an increase in the price of factors of production that would result in cost-push inflation or explanation of how an increase in a producer price index could indicate an increased demand in intermediate or wholesale markets that foretell demand-pull inflation
- diagram showing AS shifting to the left or AD shifting to the right
- examples of producer price indexes or of using them as leading indicators for inflation.

(b) To what extent can supply-side policies help in fighting inflation? **[15 marks]**

N.B. It should be noted that definitions, theory, and examples that have already been given in part (a), and then referred to in part (b) should be rewarded.

Answers **may** include:

- definitions of inflation, supply-side policies
- explanation of various supply-side policies including market-based and interventionist supply-side policies
- diagram to show the application of supply-side policies to fight inflation
- examples of the application of the policies
- evaluation or synthesis (to what extent).

Discussion of the merit of the statement **may** include: other policies that could be used such as demand-side policies, perspectives of different economic schools of thought.

Opinions or conclusions should be presented clearly and supported by appropriate examples.